

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
(317) 232-9855

FISCAL IMPACT STATEMENT

LS 7056

BILL NUMBER: HB 1769

DATE PREPARED: Jan 3, 2001

BILL AMENDED:

SUBJECT: Tax credit for donations to higher education.

FISCAL ANALYST: Brian Tabor

PHONE NUMBER: 233-9456

FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
☐ **FEDERAL**

IMPACT: State

Summary of Legislation: This bill increases the maximum income tax credit for contributions by individuals to Indiana colleges from \$100 to \$300 for single returns and from \$200 to \$600 for joint returns. It also increases the maximum income tax credit for contributions by corporations to Indiana colleges from \$1,000 to \$3,000.

Effective Date: January 1, 2002.

Explanation of State Expenditures: The Department of State Revenue (DOR) will incur some administrative expenses related to the revision of tax forms, instructions, and computer programs to incorporate these changes. These expenses could be absorbed given the DOR's existing budget and resources.

Explanation of State Revenues: This bill would reduce tax liabilities for individuals and corporations who make charitable contributions to Indiana's higher education institutions in excess of the current limits. *The potential annual fiscal impact beginning in FY 2003 is estimated to be up to \$9.7 M in lost individual and corporate income tax revenue.*

Current law provides that for individuals, the college credit is limited to 50% of charitable contributions to an institution of higher education located in Indiana, or a maximum of \$100 for a single taxpayer or \$200 for taxpayers filing a joint return. It also provides that a corporation may receive a credit for similar contributions equal to 10% of its total Corporate Adjusted Gross Income (AGI) Tax liability up to \$1,000. Under this proposal, the maximum credits allowed would be increased to \$300 for single filers, \$600 for joint filers, and \$3,000 for corporations for tax years beginning January 1, 2002.

Data and Estimation: According to 1998 DOR individual income tax data, 82,327 taxpayers claimed \$7.8 M in credits for contributions to Indiana's higher education institutions. Of this total, 8,112 out of 19,054 single filers took the full \$100 maximum credit, and 19,590 out of 63,273 joint filers took the \$200

maximum. Of those that did *not* take the maximum, the average credit taken by single filers was \$37 or 37% of the limit and the average credit taken by joint filers was \$62, or just 31% of the \$200 maximum.

This bill would increase the college credit limits for single and joint filers by 300%. It is unlikely that those taxpayers currently taking less than the maximum would increase their contributions solely due to a raise in the credit limit. However, if all taxpayers currently taking the maximum credit were to increase their contributions to at least twice the new limits (the credit being equal to 50% of contributions) while all others remain at current levels, the total impact would be a revenue loss of approximately \$9.5 M. *(NOTE: This estimate assumes that single filers who previously contributed at least \$200 would now contribute a minimum of \$600 and joint filers who contributed \$400 would now contribute at least \$1,200.)*

The bill also increases the college credit limit for corporations from \$1,000 to \$3,000. According to the DOR, 423 corporations claimed approximately \$174,000 in 1998, and 96 of these took the full \$1,000 credit. Assuming that all corporations now taking the maximum would at least double their contributions to claim the new \$3,000 credit limit, the projected annual revenue loss would be an additional \$192,000.

The combined impact of these two proposals is \$9.7 M (\$9.5 M + \$0.2 M). Any additional revenue loss will occur in FY 2003 as these changes apply to tax years after December 31, 2001. Individual income tax revenue is deposited in the General Fund, and Corporate AGI Tax revenue is deposited in the General Fund and the Property Tax Replacement Fund.

Impact on Higher Education Institutions: This bill may result in an increase in charitable contributions to institutions of higher education. The portion of any increase which will be realized by state institutions is not known.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue; Institutions of higher education in Indiana.

Local Agencies Affected:

Information Sources: Rob Whaley, Tax Policy Analyst, DOR, (317) 232-2104; DOR's 1998 individual income tax data.